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May 31, 2006

**VIA HAND DELIVERY**  
**REDACTED FOR PUBLIC INSPECTION**

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, DC 20554

Re: *Ex Parte* Submission of ACS of Anchorage, Inc., *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Section 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area, WC Docket No. 05-281*

Dear Ms. Dortch:

This letter responds to requests for information from Wireline Competition Bureau ("WCB") staff during a meeting on May 9, 2006, attended by Carol Simpson, Renee Crittendon, Denise Coca, Pam Megna, and Michael Goldstein with Leonard Steinberg of Alaska Communications Systems Group, Inc. ("ACS"), Karen Brinkmann, Elizabeth Park and Anne Robinson of Latham and Watkins LLP, and Charles Jackson, consultant to ACS. During the meeting, the staff asked for additional information relating to (i) ACS's knowledge of the location of cable telephony deployment by General Communication, Inc. ("GCI"), (ii) the average revenue per line in Anchorage, and (iii) the Carrier and Area Specific Bulk Bill ("CASBB") line count data on which ACS bases its market share estimates.

**GCI's Deployment of Cable Telephony**

ACS has developed a map of Anchorage identifying the locations where ACS's field personnel have observed GCI's cable telephony network interface devices ("NIDs") installed on the exterior of buildings. This map is attached hereto as Exhibit 1. When GCI serves a customer on its cable telephony network ("DLPS"), GCI disconnects ACS's loop and connects GCI's equipment to the customer's point of entry using its own NID. This map was generated based on casual observations by ACS's personnel during the course of routine work in Anchorage. Therefore, the map provides only a sample of GCI's cable telephony locations, and is not a complete representation of all GCI DLPS customers. What this map does show, however, is that GCI has the technical capability to serve customers using its own cable telephony facilities in

each of the five wire centers, and voice-enabled cable facilities are widely disbursed throughout Anchorage, and not localized in specific areas.

Moreover, GCI confirms in its first quarter 2006 earnings call that it has the ability to serve a significant portion of its customers over its own facilities. Based on the earnings call transcript, attached hereto as Exhibit 2, GCI continues its conversion of customers in Anchorage to DLPS facilities and projects that almost all of its cable plant in Anchorage will be upgraded for DLPS by the end of this year. Therefore, almost all of the Anchorage customers could be converted to DLPS by the end of this year, with the remainder to be converted in 2007.<sup>1</sup> GCI reports that it increased its DLPS lines by 3,200 during the first quarter of 2006.<sup>2</sup> Therefore, as of March 31, 2006, GCI has approximately 25,100 DLPS lines in Anchorage. GCI maintains its projection of converting a total of 20,000 lines during 2006 onto its own DLPS and “alternate cable-based technolog[y]” facilities.<sup>3</sup> GCI also confirms that it is serving customers in multiple dwelling units (“MDUs”), noting that it can serve many of these customers using in-home, customer-powered units.<sup>4</sup> As ACS explained in its Reply Comments in this proceeding, customer-powered units do not require the node upgrades for increased power capacity, which GCI claims is a primary reason for its alleged impairment without access to UNEs.<sup>5</sup>

The map and GCI’s most recent statements on its facilities deployment confirm ACS’s arguments that GCI is not impaired without UNEs. GCI currently has extensive voice-enabled capabilities throughout Anchorage and is capable of deploying its own facilities within a reasonable time in any locations that are not currently voice-enabled.

### **Average Revenue Per Line**

ACS estimates that the average revenue per line in Anchorage for 2005 is \$[**BEGIN CONFIDENTIAL**][**END CONFIDENTIAL**]. This estimate is based on the 2005 average number of ACS’s retail lines and wholesale lines,<sup>6</sup> and includes base service revenue, feature revenue, Interstate Common Line support, interstate subscriber line charge (“SLC”), Interstate Traffic Service access charge revenue, and state access support. The calculation of the average

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<sup>1</sup> Transcript of Q1 2006 General Communication, Inc. Earnings Conference Call at 5 (May 10, 2006) (attached as Exhibit 2) (“Q1 2006 Transcript”).

<sup>2</sup> Q1 2006 Transcript at 6.

<sup>3</sup> *Id.* at 12.

<sup>4</sup> *Id.*

<sup>5</sup> Reply Comments of ACS of Anchorage, Inc. in Support of its Petition for Forbearance from Sections 251(c)(3), *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as Amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area*, WC Docket No. 05-281, at 36, Statement of Charles L. Jackson in Support of ACS at ¶ 21.

<sup>6</sup> The 2005 line count is an average of the number of lines at the beginning of the year and the lines at the end of the year.

revenue per line is attached hereto as Exhibit 3 and is submitted on a confidential basis, subject to the protective order in this docket.

Although GCI's revenue opportunity depends on its own rates and expenses, ACS's estimated average revenue per line serves as a reasonable guideline for GCI's expected revenues. Comparing the average revenue per line with the monthly UNE loop rate in Anchorage of \$18.64 illustrates that GCI has the ability to make a substantial profit. Based on GCI's statements and analysis in its Opposition, it is clear that GCI elects to use UNEs where it can earn a higher profit than it could deploying its own facilities. Thus, in order to maintain revenue from its leased lines, ACS has the incentive to maintain loop rates that are low enough to make leasing ACS's loops more attractive to GCI than serving customers on its own facilities.

Moreover, GCI's revenue opportunity for local exchange service is closely tied to its bundled product offerings, which include local exchange service in addition to cable television, long distance and wireless services. As stated during the most recent earnings call, GCI's strategy has been to use local exchange service to leverage higher margin services and to reduce customer churn.<sup>7</sup> GCI acknowledged that "people don't buy things [rate] card any more[;] they are buying a combination of services and using different ones at different value levels."<sup>8</sup> Therefore, ACS's average revenue per line does not paint the entire revenue picture.

### **CASBB Retail Line Data**

ACS and GCI each file monthly reports with the Regulatory Commission of Alaska ("RCA") containing the number of retail lines it serves in Anchorage for intrastate access purposes. The CASBB reports filed by ACS and GCI are available on the RCA's website through the following links: <http://rca.alaska.gov/data/companyDetail.html?acronym=ACS> and <http://rca.alaska.gov/data/companyDetail.html?acronym=GCICC>, respectively. The reporting period coincides with the carriers' billing cycle, and reports are filed during the month following the end of the reporting period. Therefore, there is a one-month lag in the numbers reported.

The number of lines included in the CASBB report is an average of the number of lines at the beginning and at the end of the reporting period. The retail lines for CASBB purposes include all residential and business customer lines, including all wireline, voice-grade connections. For purposes of CASBB, ACS reports the number of retail lines it serves, plus the wholesale lines it provides to GCI, AT&T and TelAlaska. GCI reports the retail lines it serves over ACS UNEs and the lines served over its own copper, fiber and cable facilities and through its own multiplexing of ACS UNEs. In the Petition and Reply Comments in this proceeding, ACS provided the number of its retail lines and the number of wholesale lines ordered by GCI, AT&T and TelAlaska based on the number of lines served as of the end of each month (and not the average number of aggregated retail and wholesale lines for each month, as are reported on CASBB). However, the methodology used to calculate the retail lines included in ACS's

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<sup>7</sup> Q1 2006 Transcript at 11.

<sup>8</sup> *Id.*

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Petition and the Reply Comments is substantially the same as that used for purposes of CASBB.<sup>9</sup> Additionally, the retail lines reported for CASBB purposes are not broken down by customer class. In its Reply Comments, ACS provided residential and business customer lines broken down based on the classification provided by the customer at the time service is ordered.

\* \* \* \* \*

Please contact the undersigned if you have any questions regarding this submission.

Respectfully submitted,

/s/

Karen Brinkmann

Elizabeth Park

Anne Robinson

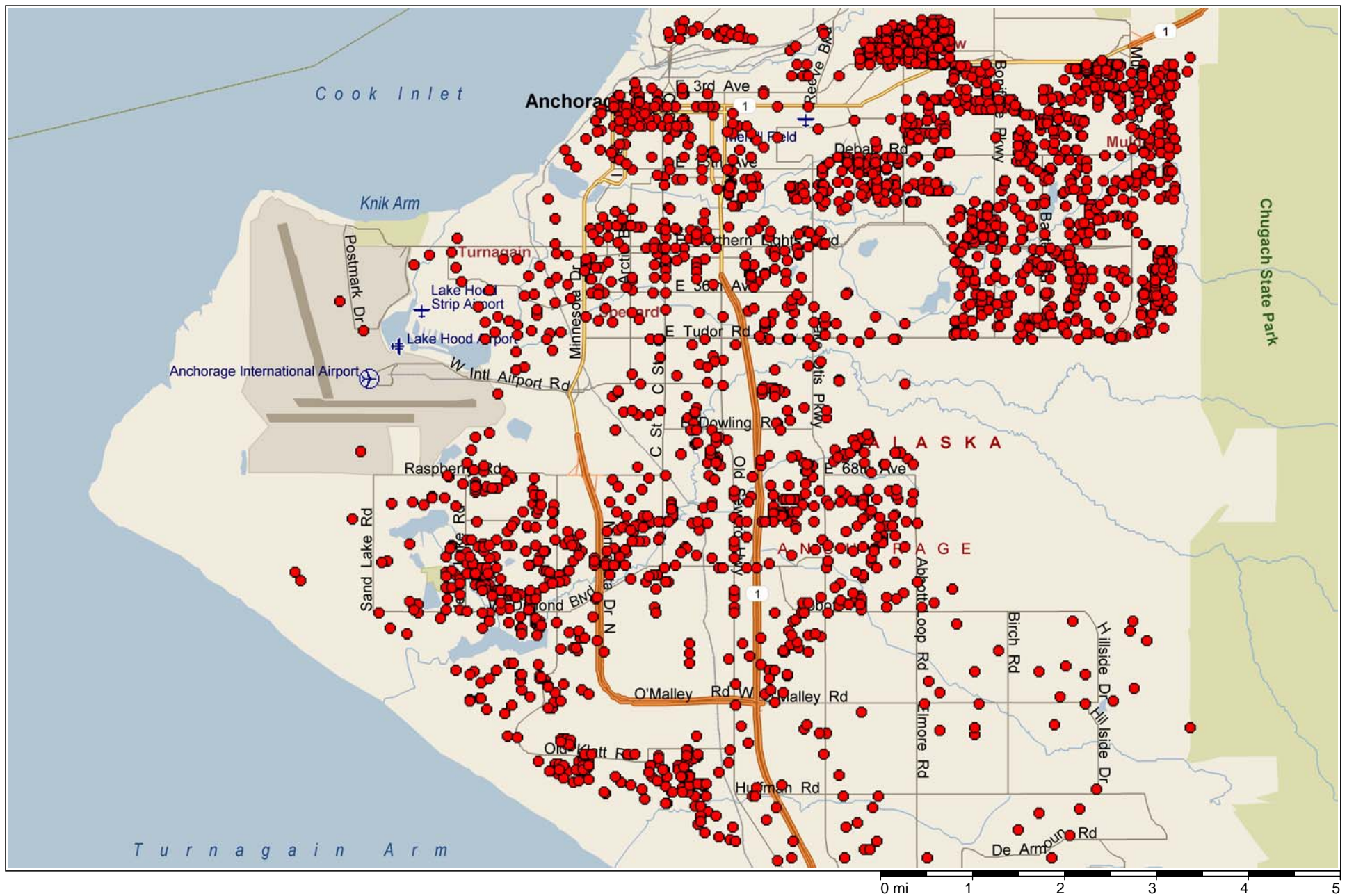
Enclosures

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<sup>9</sup> ACS's retail line count for Anchorage in the Petition and Reply Comments includes a category of lines that is not included in the line count for CASBB purposes. This category of lines constitutes less than 0.01% of ACS's retail lines in Anchorage.

# Exhibit 1

GCI ct2



# Exhibit 2



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**MANAGEMENT DISCUSSION SECTION**

Operator: Welcome and thank you for standing by. At this time all participants are in a listen-only mode. During the question and answer session you may [indiscernible]. Today's conference is being recorded, at this time, I will turn the call over to Mr. John M. Lowber, Chief Financial Officer. Sir, you may begin.

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**John M. Lowber, Chief Financial Officer, Senior Vice President, Secretary, Treasurer and Member of Finance**

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Thank you and thank you for joining us today. I am John Lowber, the company's Chief Financial Officer; I have got Ron Duncan, our President and CEO here with me today. We have got Dana Tindall with the Legal and Regulatory Department and Bonnie Paskvan, our Corporate Counsel. We have got Bruce and Fred and Pete from the Finance and Accounting Department. So, we have got a full crew here. We will all be available to participate in the Q&A session, which will follow my initial comments.

If you don't have a copy of our detailed press release, you can find it on our website. The conference call is being recorded and will be available for playback for 72 hours beginning at 4 p.m. Eastern Time today. The playback number is 1866-454-2100 with an access code of 7461 and in addition to the conference call you may access the conference through the internet or access the call via net conferencing, log on to our website at [www.gci.com](http://www.gci.com) and follow the instructions. Webcast will be available for replay for the next two weeks.

I will now read a cautionary statement about forward-looking comments and then we will get started. Some of the statements made by GCI in its presentation are forward-looking in nature. Actual results may differ from those projected in forward-looking statements due to a number of factors. Additional information concerning such factors can be found in GCI's filings with the Securities and Exchange Commission. The presentation format will be a little different this quarter as this is our first quarter reporting under our new organization. As you are probably aware, we reorganized the company from the historical business lines of long distance, local, internet access, and cable and entertainment into new customer focus lines including consumer, commercial, network access and managed broadband. The reorganization was necessary to facilitate our continued evolution to a customer focused fully integrated service provider.

Our budgeting, accounting, management and reporting have all been realigned to support our new structure. Our historical financial reports will have to be recast to be consistent with our new format. The first quarter results were pretty much in line with our guidance. First quarter revenues totaled 112.8 million representing an increase of 5.9% over the same quarter of last year. EBITDA excluding the impact of the new accounting and treatment for non-cash share based compensation expense increased by 2.6 million or 7.6% over the prior year. On a sequential basis, revenues were up slightly and EBITDA was up almost 4.8% excluding the effect of the claims settlement recorded during the fourth quarter of last year.

Net income and earnings per share were down slightly due to the new accounting treatment for stock options and increased in depreciation expense and hopefully a temporary uptick in our effective tax rate all in non-cash items. All of our new business units except for managed broadband experienced year-over-year increases in revenues and all but commercial experienced increases in sequential revenues.

Consumer. The new consumer segment experienced a 6.1% increase in revenues over the prior year and 1.7% on a sequential basis. Video, data and wireless revenue increases more than offset a decrease in voice revenues on both a sequential and year-over-year basis. The gross margin



percentage was mostly unchanged from the year ago quarter and was actually up 189 basis points after factoring out the effect of the claim settlement. All of the business line metrics are included in the schedule attached to the press release so I'm not going to repeat them all here. But a few of the more significant items for the consumer segment for the quarter included an increase of 3100 cable modems, 2800 local service lines converted to our own facilities and additional 3700 HD/DVR converter boxes deployed.

Consumer EBITDA excluding share based compensation expense totaled 8.34 million for the quarter. This compared to 8 million a year ago and 6.8 million adjusted for the settlement in the prior quarter. The increase compared to a year ago was in spite of an increase in bad debt expense resulting from depletion of the remaining MCI credit during the current quarter. The sequential improvement was due primarily due to an increase in revenues and margins percentage during the current quarter. We raised the bar of bit in terms of customer service during the quarter, our new IT systems made it possible to cross train a majority of our call center employees across several products and services thereby reducing the need to transfer calls to product specialists and significantly improving lead times. In addition, we expanded our field service hours such that visits to customer premises can be accomplished in the evening hours and on Saturdays and Sundays making it much more convenient for our customers to obtain what they need. We received a lot of favorable feedback from our customers regarding these improvements and we have been able to reduce the average time a customer has to wait for service or repair.

Commercial. First quarter revenues were up 3% over the same quarter of 2005 and were down slightly on a sequential basis. Similar to the consumer segment, video, data and wireless revenue growth more than compensated for a decline in voice revenues as compared to the prior year. The decline in revenues on a sequential basis was due primarily to a decrease in managed service revenues during the current quarter. The commercial gross margin percentage expanded 500 basis points compared to the prior year quarter and 264 basis points sequentially excluding the effect of the fourth quarter settlement.

Selling, general and administrative costs as a percentage of revenues during the first quarter were down more than 340 basis points compared to the first quarter of last year and sequentially and are hopefully beginning to reflect certain deficiencies introduced as a result of our reorganization. Commercial EBITDA was up more than 20% as compared to the first quarter of last year and was up 8.7% sequentially excluding the effect of the settlement. Notable commercial metrics include an increase since the first of year of 400 cable modem subscribers, 1000 commercial video subscribers and additional 400 local service lines moved to our own facilities. We have historically reported the number of long distance customers that have made calls during the last month of each quarter. Because we have a large number of customers that are now on bundled plans that pay us a plan fee and may or may not actually make a long distance call, we are going to begin reporting the number of customers that we bill irrespective of whether or not they actually made a long distance call. We also plan to break this information out between consumer and commercial segments. Unfortunately this information was not available on time for the call but we should hopefully be able to report this information next quarter. We added a combined 4000 commercial and consumer wireless subscribers during the quarter and at quarter's end, we had a total of 20,100 subscribers. We hope to be able to differentiate between numbers of commercial and consumer wireless subscribers in the future as well.

Network access services. The network access business had a strong quarter. Revenues were up more than 10.7% over the prior year and were up 1.5% sequentially. The gross margin percentage was down slightly versus the prior year quarter and approximately 3.3% sequentially due to anticipated scheduled rate reductions. We carried 288 million network access minutes during the first quarter representing an increase of more than 27% over the prior year quarter. Network access minutes were up more than 5% sequentially. EBITDA increased by approximately 1.8 million or 9.8% over the prior year quarter and decreased by almost a \$1 million or 4.5% on a sequential basis adjusted for the fourth quarter settlement. Our average rate per minute for all of

our long distance traffic totaled 9.02 cents per minute compared to 9.7 cents per minute a year ago and 9.28 cents per minute in the prior quarter.

Managed broadband. Managed broadband revenues were down 8.9% compared to the year ago quarter but were up almost 3% on a sequential basis. Revenues for the first quarter totaled 6.2 million as compared to 6.8 million in the same quarter of the prior year, and just over 6 million in the prior quarter. Quarterly EBITDA was down 729,000, as compared to the year ago quarter but was up approximately 546,000 on a sequential basis, largely due to a reduction in bad debt expense. As I mentioned last quarter, we experienced some rate compression as we went through this year's renewal cycle, although we were very successful in maintaining our customer base.

Other items of interest, legal and regulatory. Really not much new to report on the legal and regulatory front. Our efforts have been focused primarily on negotiating interconnection agreements with the incumbent carriers in the service areas in which we were recently given authority to provide service.

MCI credit. During the first quarter we used the last 372,000 of our reaming credit with MCI. The credit is now depleted.

Stock repurchase program. Our stock re-purchase program continued during the first quarter and upto the blackout period. Year-to-date we have acquired slightly more than 893,000 shares at an average cost of approximately \$11.36 per share or a total of 10.149 million. Of that amount, 6.6 million was spent after March 31st and is therefore not reflected in the first quarter financial statements. Subsequent to the date, the Board authorized stock option exercise proceeds to be utilized for share repurchases. We realized approximately 3 million in option proceeds to be dedicated to that purpose. We are currently cleared to purchase upto an additional \$12.85 million worth of shares through midyear plus any additional proceeds we may realize from option exercises subject to market conditions, available resources and continued financial performance by the company. In the event we don't purchase the full amount authorized, it is likely that the remaining funds will be carried forward for purchases in subsequent periods.

Guidance and economic prospects. Last quarter, I mentioned that we expected that we will generate first quarter revenues in the range of 112 million to 114 million and EBITDA in excess of 37 million. We generated EBITDA of 37.1 million roughly equal to guidance and revenues of 112.8 million, which approached the middle of the range. We are pretty bullish on the Alaska economy at the moment and we feel the same way about the prospects for our business. Our guidance for the full years remains unchanged at 450 million to 460 million in revenues and 150 million to 154 million in EBITDA. We expect the second quarter results to surpass those of the first quarter both in terms of cash flow and revenues. We expect the first quarter to be our weakest quarter of the year.

Liquidity and capital expenditures. We ended the first quarter with more than 43 million in cash and 49.5 million available to draw under our revolver if we needed. Our senior facility will require only 1.6 million in principal amortization during 2006. We don't currently expect to draw down our facility during 2006 as we expect to generate free cash flow during the year most of which will likely be used to continue our stock repurchase program. Depending on timing, we may use the facility to fund our pending purchase of an interest in Alaska Digital which we have discussed previously.

We invested approximately 13.7 million in capital expenditures, net of a new \$1.2 million retail store recorded under capital lease during the first quarter. Investments were made in the following areas. For our business lines, primarily cable modems and set-top boxes 3.9 million, for IT projects 3.6 million, for support of our network 3.8 million, for product management including local services initiatives 1.8 million, and for administrative support approximately 600,000. Capital expenditures requirements beyond approximately 25 million per year in maintenance capital are largely success driven and are a function of the opportunities we develop in the market. Notwithstanding the modest run rate we experienced during the first quarter, our expected capital expenditures

requirements for all of 2006 remain unchanged from last quarter's guidance at approximately 85 million. In order to accomplish our free cash generation goals for the year, we will need to hold capital expenditures to approximately that level.

To recap our cash sources and uses for the quarter on a simplified basis, we generated approximately 37.1 million in EBITDA, out of that we spent 13.7 million in capital expenditures, 15.2 million in cash interest expense including our semiannual bond interest payment, and approximately 3.5 million in stock repurchases leaving a 4.7 million in cash available for other items. The interest rate on approximately 318 million of our 477 million in debt is fixed. Our cash interest expense at current rates on our existing facilities is now running at approximately 34.3 million per year compared to the last two quarter's annualized cash flow of approximately 145 million excluding the claim settlement in the fourth quarter. Our cash interest coverage is approximately 4.2 times and our leverage at quarter's end on net debt is just under three times cash flow. On gross debt our leverage is 3.29 times.

In conclusion, we met our revenue and cash flow guidance for the first quarter and we are optimistic about meeting our goals for the remainder of the year. We are looking forward to realizing the benefits of our efforts to re-organize the company and the investments that we made in our new IT systems. We will now be happy to answer your questions.

## QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question and answer session. [Operator Instructions]. The first question comes from Ian Zefano [ph], you may ask your question, please state your company name.

<Q>: Hi, Seacore [ph] gentlemen. A couple of questions here, as far as the provisioning of the DLPS, you're looking at a pretty big acceleration from the first quarter and I imagine that's because we are getting to the warmer season and why is it only 3200 lines in the past quarter because of the seasonality or is it more from a equipment standpoint?

<A – Ron Duncan>: This is Ron Duncan, Ian. The first quarter numbers really have to do with the amount of network that's available to convert. We're close to tap out on available customers that can be converted on the already upgraded network. That should change here in the next couple of weeks as we started to bring some more segments or notes of the plan online for conversion since we have started the construction season up here in the last couple of weeks. So the pace should accelerate during the remainder of the year, we have changed the technology around the little bit too now so that a number of our conversions we need to schedule in premise visits and that has slowed down the conversion rate a little bit. We are still learning how to manage that. The goal for the year remains 20,000 and it is quite frankly an aggressive goal; we do have to pick up the pace to hit that between now and the end of the year, but we are going to continue to target that and I expect to see the pace sort of steadily increase over the year and by the end of this year almost all of the Anchorage plant should be upgraded so almost all of the Anchorage customers should be accessible for the conversion.

<Q>: Okay, and then I guess the balance of the customers will be converted in '07?

<A>: The balance of any Anchorage customers would be converted in '07, I believe the plan calls for us to start Juno [ph] conversions later this year and Fairbanks conversions which started in '07 and then the new markets which we are rolling out which start this year. And a couple of the new markets will turn up initially on GCI facilities. We won't be using the rented facilities of the incumbent by and large when we roll out in the new markets, and those roll outs will start in the third quarter of this year.

<Q>: Okay, and on the share repurchase program, I know we just bought 13 million in the second quarter or 12.9, are we going to probably see something like 26 in the back half of the year, or is it going to drop down to you know, \$10 million per quarter range in third, fourth quarter?

<A>: Well, the authorization that we have today was that we have about five million per quarter to spend. We did authorize an additional 10 million extra in the first half of the year. So that would give us 30 million for the full year. To the extent that we haven't spent the full extra ten in the first half of the year, that would be carried forward into next year. But the goal, Ian, is around 30 for the full year at least currently. And of course that depends on you know, market conditions and so on, and our continued financial performance and so on as well, Ian.

<Q>: Okay, and there is no intention to may be buying more shares that you could internally generate from a free cash flow standpoint?

<A>: I would say currently, no, there's no plan to do that. But you know, we wouldn't rule anything out going forward depending on what the market situation looks like. It certainly is something we could look at down the road. But there's no current plans to increase leverage or anything like that, to bring back any stock.

<Q>: Okay, great, thank you.

Operator: Thanks, your next question comes from Anthony Carmen. You may ask your question and please state your company name.

**<Q – Anthony Carmen>:** It is Deutsche Bank, thank you very much. A couple of questions. First, I'm trying to sort of rectify or may be just draw a parallel between the comments of your competitor ACS on their call. They kind of indicated that they saw may be a slow down in the pace of conversions over to your cable telephony platform in terms of I guess [indiscernible] that were coming out of service on their end and going to DLPS on your end. But I was wondering if you could sort of talk about the experience at least from your end, was that kind of a measured slow down to sort of build the pace for the rest of the year, or were you not seeing, you know, some of the indications that they might have been giving on their call?

**<A>:** I think it goes back to the same answer that I gave Ian that we were running out of available homes to convert based on where plant has been upgraded. So, yeah, the pace slowed down in the first quarter. I think we had 8- 900 more than they thought the number was and I don't know where they get their numbers. But we're pretty convinced that we really converted our numbers. And that does represent a loop the DLPS represent a loops to DLPS conversion of 3,400 for the, 3,200, excuse me, for the first quarter. And I would expect the pace to come up somewhat over the remainder of the year. Certainly it has to if we are going to get our goal. It depends on a combination of factors, the most significant of which is when we turn over nodes at the plant and declare them to be telephony ready so that we can commence conversions in those nodes and then how long the node can – how long the individual customer conversions actually take.

**<Q – Anthony Carmen>:** What has the customer experience been thus far? I guess, we now have enough quarters that may be the sample size is significant enough. Have you seen much attrition that goes back to the lag after the first 30 or 60 days, or what has the experience been thus far with DLPS?

**<A>:** We're very satisfied with the experience. Last time we looked we had lower churn on our own lines than we have on our competitors' lines, and we have better performance statistics on our own lines. The number of customers who are out for more than 20 or more hours is fewer on our lines than it is on our competitors' lines. Part of that's because we have seven day repair and maintenance. And you can't get repair and maintenance from the other guy after 5 o'clock on Friday.

**<Q – Anthony Carmen>:** Okay. Two more questions, if you'll allow me. On wireless, don't hear much about it from you guys yet. Sounds like it's not a significant enough – sort of meaningful indicator. You've placed a little bit of a hedge bet, you know, with Alaska DigiTel. But that would seem like at best, kind of a small hedge against at some point, having downright ownership of the GSM asset up there. I mean, what really is, you know, kind of the long-term plan or the long-term viewpoint? And is wireless – is the wireless product that you're reselling currently through Dobson enough to kind of give you enough for the bundle, or give you some of competitive push-back against ACS?

**<A>:** Last part of the question first. We believe that the products that are currently in the bundle are sufficient to maintain our position in the marketplace, and give us adequate competitive tools to deal with the competitors' bundling issues and the product offerings they might make in the marketplace. That said, the margin on the wireless products because they're resold through the Dobson relationship is not what we'd like it to be. We are not generating the EBITDA from that product that we do on the products that we own in our own facilities. And we very much would like to own a wireless facility. We'd very much like to own the Dobson wireless facility In Alaska. We've been quite candid about that. There's nothing happening on that front right now. I've said in the past, I think it's more likely that that event would happen at such time that there was a transition in Dobson's overall operations, but really nothing has changed on that front in the last six to nine months.



**<Q – Anthony Carmen>:** Okay. Just finally, in terms of the stock and the stock repurchases, the stocks had a tremendous move, you know, touched a 52-week high today, off a little bit right now. Obviously the valuation on the stock has moved a lot. It would seem like you're more aggressively buying back stock now than you were obviously with the authorization or the approval for the higher buyback amounts. You know, how do you marry future share repurchases against, you know, kind of the current valuation? And would you, at some point, consider just perhaps putting the cash back on the balance sheet to store away for a different day in terms of redeploying in CapEx project or an acquisition or, you know, how do you kind of marry the use of the cash here for share buybacks?

**<A – Ronald Duncan>:** I think we've said in the past that share backs are a constantly reevaluated situation, particularly as the price changes. We've made it clear that our intention in share buybacks is to reduce the total number of shares outstanding, not to spike the stock price. And we try diligently not to be the price-setter as a result of our buybacks. That said, as the price drifts up, obviously, we're going to pay more for shares. If we were to conclude that the company was highly overvalued on a relative basis to our alternative investments in our peer groups, than we'd probably have to give reconsideration to what we're doing. I think we're very happy with the increase in the stock price over the last six months. We think it reflects strong fundamental performance of the company. But we also think it reflects market trends. And if you look at our peer group, particularly the cable peer group, there's been significant improvement and increase in the multiples there, in the last six months, and our multiples still materially trails companies that we continue to view as our peer group.

So, we don't think that we're at a point yet where the buybacks are inappropriate. The accelerating pace to the buybacks really has to do with the cash-flow generation from the company. The 10 million incremental buyback that was authorized in the first half of this year reflected the fact that we closed last year out of \$45 million of cash on the balance sheet. As Mr. Lowber noted, we're less than three times all in leverage on a net basis, no reason really to reduce that leverage any further. If anything, we are probably under-levered. So I think the course is to continue to cautiously evaluate and try and buy in the market in a manner that doesn't spike the price. And we will be constantly looking at the cash balance and the available supply of shares, and buying when we think we can get a decent price.

**<Q – Anthony Carmen>:** Okay. Thanks, Ron.

**<A – Ronald Duncan>:** Sure.

Operator: Thanks. And your next question comes from Ari Moses. You may ask your question, and please state your company name.

**<Q – Ari Moses>:** Hi. Kaufman Brothers. Good afternoon. A couple of questions, first for John. In looking at the income statement, you started out with a comment about temporary up kick in the effective tax rate, and hopefully it's temporary. What drove that tax rate higher this quarter, and why – you know, what's going to happen to it through out the year that, you know, is it going to stay in this range? Hopefully they are, you know. How should we be looking at that? And second, in terms of the SG&A expenses, I would say there was an up kick there in the quarter, looks like it was in the consumer group. And I know, in the press release you've stated, increased medical claims and IT spending. Just wondering what exactly led to that up kick? And was that really kind of some one-time expenses? Or is that going to be the run rate going forward? And then I have a follow-up after.

**<A – John Lowber>:** All right. Let's see. What was the first one, again?

**<Q – Ari Moses>:** Tax rate.

<A – John Lowber>: Tax rate. Yeah. The – our tax provision is exceedingly complex, and from time to time we find adjustments that need to be made to it. And that was certainly the case in Q1. There were some adjustments, I think, we had to make to timing on what was it Fred, vacation [indiscernible] or something like that?

<A>: [indiscernible]

<A>: So we had a fix we had to make there. Also as we have a smaller net income item, the percentage of non-deductible items gets to be a little bit larger. Having said all that, then I think the rate came in at slightly over 48 percent. But that adjustment, hopefully, was a one-timer that we're not going to see again this year. And you know, as we grow the net income, hopefully the rate will shrink. Right now, I think we're targeting somewhere between 43 and 45% for the effective rate for the full year. So hopefully that's a one-time aberration. And I guess the other question had to do with –

<A>: I would like to just point out on the tax rate too, Ari, that while it's important for the booked net income, as you'll see when we file the K, we're sitting on a 160 million in NOLs. At the current rate, we're in the four to five year timeframe before we'll be any sort of a tax cash payer. So, quarterly variations in the book tax rate have virtually no impact on the economic performance of the company. So I realize you want to track the net income. But from the perspective of the overall economic value of the company we're well away from the period in which those would have any economic impact on us.

<Q – Ari Moses>: Understood. Then, in terms of the SG&A?

<A>: SG&A, what periods are you looking at, Ari, particularly

<Q – Ari Moses>: This quarter.

<A>: Compared to what? The prior year or prior quarter

<Q – Ari Moses>: Compared to the prior – actually if I'm looking prior year and prior quarter percentages were the same. It wasn't you stick up, I guess if I look at the, I think it was the consumer segment, it looks like it was a notable jump, and maybe that's off the fourth quarter. The fourth quarter was unusually low. So, maybe it was a fourth quarter impact, not a first quarter impact, just wanted to make sure I understood it.

<A>: Yeah. I guess overall Ari, if you look at SG&A, and I took out of the fourth quarter, I backed out the effect of the claim settlement and so on. And, on a total company basis the SG&A went from like 34.83% in Q4 to 34.65% in the first quarter. So, we had a slight decrease, and that's factoring out as well the share-based compensation expense. You need to do the math on that too. So, to pull those out, it actually decreased slightly. In spite of the fact that our health claims were a lot more than we are expecting to be in Q1, and we are hoping that's an aberration. But, we think going forward, you know, we are going to start bringing out a fair amount of efficiencies from our new IT systems in the new reorganization, I think we are only scratching the surface on those fronts. And, in terms of the SG&A as a percentage of revenues we should see that drop as the year progresses.

<Q – Ari Moses>: Okay, great. On the data business you look at – I think it was the commercial segment, there was a step down in data revenues from fourth quarter to first.

<A>: Right.

<Q – Ari Moses>: What drove that, and you know where – it was some type – was there any weakness in the data segment or is that the one time step down?



<A>: That result I agree from two major pieces. One was, in the fourth quarter we got a performance bonus from one of our large customers because of the quality of the service we provided them during the year. I think the contract has a provision in it to do if our availabilities meets or exceeds a certain threshold we get rewarded for that, and we enjoy it, I think close to half a million dollar bonus there. And then there was a – in the fourth quarter also, in the data category—it was actually the managed services, but we performed a one-time project for one of our large customers that generated about a half a million bucks in revenues during that quarter. That wasn't recurring in Q1. So, it's really no indication of any deterioration in the fundamentals of that business unit.

<Q – Ari Moses>: Okay, okay. And last one, back on the stock rate purchase, I think I heard you say that of the 10 million spent or highlighted in the press release about 6.6 million of it was spent after the quarter. Was that – did I hear that correctly?

<A>: That is correct.

<Q – Ari Moses>: So, you know, back to Ron's comments was the reason for the timing of that and bulk of it, dollars being spent in that quarter just because of cash flow, you had the cash coming in, so, you are spending it or because obviously, twice as much was repurchased in two or three weeks following the quarter as in the three months during the quarter. Was there any specific reason for that timing other than cash flow timing?

<A>: Ari, I can't get away with anything with you. But...

<Q – Ari Moses>: Sorry about that.

<A>: These things are never as simple as they might appear. I actually negotiated the acquisition of the large block of class B shares from the state of one of our former shareholders, and I cut the deal I think some time in March but it didn't close until sometime in April. And that was all in I think 5 million or the 6 million dollar transaction. So..

<Q – Ari Moses>: Got it.

<A>: It wasn't any, you know, any conscious acceleration or deceleration of the purchase or anything like that, it was just share and equity base.

<A>: There is also a black out window effect just because of the 10-K, we are blacked out of the market for a longer in the first quarter than we are in most quarters of the year because of the timing and the delay in filing the K, and when we can't buy anymore on the open market. So, well it doesn't affect private purchases, open market purchases are more problematic due to narrow windows.

<Q – Ari Moses>: Got it. All right, great guys thanks.

<A>: Great Ari.

Operator: Thank you next comes from William Burt [ph]. You may ask your question and please state your company name.

<Q>: Ferris, Baker Watts. Ron, the managed broadband was down year-over-year, and is mentioned that there is both the rate change and a fewer customers. Is there any change in the competitive environment in that space?

<A>: No, there is a significant change in the competitive environment. It has been quite intense there for a while, we had to keep advancing the technological front in order to maintain the

customer base and the volume of revenues. The customers are clearly getting a very good deal and they are getting increased volume in each quarter and each year for essentially the same revenue amount. And, we probably didn't have at large technology jump last year as we had it prior years. So, we were unable to sustain the full level of revenues. And, I think we lost one or two customers, but we won back some other customers in the first quarter of this year. It's an intensely competitive business out there with some of our competitors dumping large amounts of capacity in the marketplace. But, I don't see it as a major warning issue. I think we are comfortable with that business. It's no longer the dynamic growth business that it once was because we have captured probably 80% of the market. But, I suspect will sustain on a position and largely sustain the revenue base maybe with some slight further decreases.

<Q>: Great, thank you.

Operator: Thank you. Our next question comes from Jonathan Schildkraut [ph], you may ask your question and please state your company name.

<Q>: Jeffries and Company. Thank you for taking the question. Couple of housekeeping items and then a couple of strategic items. In terms of the MCI credit and stock-based comp numbers, where are those coming out of – as I look to the P&L items?

<A>: The share base comp is in really two pieces. One piece of it just shows up in I think the operating cost SG&A area, and that number is I think roughly – I think \$680,000 or something like that. Yeah, pre-tax. And, then there is another piece of it, it shows up down below the line in the form of a cumulative effect accounting change for – then option that got treated using the liability method accounting which means we had to value it at fair value. And that accounted for, I think, roughly 1.1 million gross and then net of tax it was around 680 or another was it pretty close to that number. Yeah, it shows up right on the face of the income statement. So, the share-based comp shows up in those two areas. What was the other item you were looking at?

<Q>: Well, I was wondering where the MCI credit was?

<A>: That's just a reduction in bad debts, and the number was around 372 for the quarter.

<Q>: Right. And Bill, which group did that come out of, in terms of separate groups that you have there, was it spread across?

<A>: You remember where that might [ph] Fred.

<A>: No. This is consumer.

<A>: Fred thinks that was reflected in the consumer area.

<Q>: Okay, great. Strategically a couple of questions. You know, the cable modems had a very nice jump in the quarter, penetration of basic saw this is near 60% which is as high as any company I know. I am wondering if, you know, 100% of your cable subscribers can receive your high-speed data product, and how high can that penetration go over the longer term? The second question I have has to do with DLPS. You know, you mentioned earlier that some new market launches would go directly on to the DLPS platform, and I am wondering if those access lines are in your 20,000 DLPS additions over the course of the year, it's in that guidance or is it separate from that guidance?

<A>: Second question first, because it's easy to remember. The 20,000 line target includes our goal, and as I mentioned prior, we think is an aggressive goal for total DLPSs including the new markets this year. Some of the challenge there is how quickly we can bring the new markets on, we've had some significant delays on the final steps of the regulatory front to the number of places

and getting up and locate it up and launch. We are now looking at probably in the third quarter for turning up two new markets this year and the bulk of the new markets turning up next year. But those are in the 20,000 DLPS account for this year. And then, cable modems I suppose the logical upper limit is 100 percent, and cables below that's not even true because we have some numbers to take cable modem and don't take the video the uptake in sales relates to some revamping of the cable modem product line in the last half, particularly in the last quarter of last year that has created some very attractive new packages for customers and has led to both an increase in the absolute number of modems and a significant increase in the number of customers stepping up to higher value, higher priced modem products, which is why you also see the average revenue per modem going back up. We said when we launched our low priced and free modem program, I guess almost two years ago, that we expected to see a temporary downtick in average price per modem as we got people used to using the always on benefits of the cable modem and then that we would entice them to spend more over time by demonstrating to them the value that could be obtained with higher speed and different quality connections, I think that plan is working exceedingly well. We continue to develop new products that enhance the value of high-speed connectivity for our customers, and I think you're seeing a reflection of that both in the modem penetration and the modem revenue numbers.

<Q>: Excellent. In the past the company has given some color on the impact of bundling the high-speed data or having phones on multiple services on churn, clearly bundling drives up here your revenue per customer, but I was wondering if the company can give some up-stated color on the impact to churn that it's seeing from the bundling efforts.

<A>: I don't know the most current churn numbers, we don't see anything that causes us to believe our original assessment is wrong and we believe very strongly that we see very significant churn reduction from bundled customers that people who have the full bundle are happy campers who buy and large tend to stay with us, it's one of the reasons we are intently focused on being able to drive out local in the other markets, so that we can provide the complete bundles, which people over to the more value priced services and both increased the revenue, reduced the churn. We are still very committed to bundling, bundling is part of the reason that we did the re organization because there really isn't as much product differentiation as used to be people are buying the bundle. It's part of the reason, I think you characterized in your note this morning that there was some confusion or some difficulty in reading your way through the new numbers. Part of the results in the new numbers are that the different product, the single product statistics are disappearing as people buy the bundle for a fixed price and we are very, very happy with the overall mix there.

<Q>: Okay. It's only a first time confusion just by looking at the number, but...

<A>: I didn't mind to know that was impressive, how early it showed up in my mailbox. But, part of the reason is that, a lot of the numbers that we used to have and John referred to with the long business number as well, they are either disappearing or they are not meaningful. Because people don't buy things [indiscernible] card any more they are buying a combination of services and using different ones at different value levels.

<Q>: Exactly. Thank you very much for your time.

<A>: Sure.

<A>: He had one other question, I think that we didn't answer, specifically and that was the number of the cable subs that we are able to get the cable modem. And I think that percentage...

<A>: That is a 100 percent.

<Q>: 99 – I think...

<A>: One market doesn't have access today.

<Q>: By design.

Operator: Thank you. [Operator instructions] our next question comes from James Lee, you may ask your question. Please state your company name.

<Q – James Lee>: Americas Growth Capital. Ron on the DLPS, can you just comment about the MDU [ph] boxes. I think lastly you talked about average – your supply is shipping new boxes we are testing it, I'm just wondering how that's going?

<A – Ronald Duncan>: We still don't have deployable versions of the MDU box, I know there is a box in the lab, I think we are close on that, I haven't had an update on that recently. We are also continuing explore, I think several flavors of T1 of – boxes for deployment in both the MDU and the commercial environment but I don't think those are ready for primer time yet.

<Q>: So, we just want to get a percent – better sense of the guidance the 20,000, you know, switching over to DLPS does that include any MDU units being deploy over the next few quarters?

<A>: We are deploying in MDUs now, we are not deploying as efficiently as we would like. Because we are staking up the four port average boxes on top of each other rather than using whether it will be the 10 of the 12 port box which would consume less space and be more power efficient. We are also moving to in-home, home powered units for the number of the MDU applications that are quite suitable for number of our apartment customers. So, we are using the full suite of technology, I don't think that we are unhappy with where we are on box deployment, I would still like to have that 12 or 24 line box in a single form factor with one internal battery. But, we haven't quite got all the box we haven't got that yet, we didn't this last time I looked. But, I may not have the most current information as of the last two or three weeks. But, the 20,000 goal would be the net DLPSs across the entire system. And actually, maybe not even just DLPS it may include alternate cable-based technologies, as well as we expand our service offering here, but it would be the net ads all at our own facilities this year.

<Q – James Lee>: May be Ron, you can talk about the economics a little bit the current way you are deploying the MDU units like on approved sub basis, how much – is that so much different than what you deploy to the individual homes?

<A – Ronald Duncan>: You know, I don't even know what the multi port with the 12 or 10 or 12 port MDU box is going to cost us. The numbers on the MDUs are probably a little bit better on the four port box and they would be on a single family home. Because the probability of using all four ports is very, very high when you are in a 10 or 12 or 24 plugs whereas I think four that box on homely mainly go up two or three of the boards. But, I don't have the – I don't have any specific breakout James in terms of the dollars per customer, I do know that when we move to the in-home power units, the deployment cost goes down dramatically both because the box cost it comes in integrated cable modem. And MTI for the phone of the box cost goes down very dramatically compared to the exterior unit you also save money on plant powering. So, I would expect the average cost of deployment per home to continue to decrease as it has over the first year or two year.

<Q – James Lee>: Okay, great. And maybe Ron can you elaborate on the wireless side a little bit, maybe you can talk about the marketing activity, it seems like you haven't really kicked up the marketing engines even the number of subs you add this quarter. Do you plan to do that over next couple of quarters or given the fact that you are not making that much money on the wireless side, is that want to keep that on the steady phase as opposed to ramp it up.

**General Communication, Inc.**

Company▲

GNCMA

Ticker▲

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**<A – Ronald Duncan>**: I thought adding 4,000 wireless customers in the first quarter was pretty good. So, we are unhappy with that, it fits with our targets for the year and the phase may pickup just a little bit there. But, I think there are some limits as to just how fast you can add those customers. So, I'm not at all unhappy with the level of wireless ads, I think particularly the consumer marketing team has done a very good job, we are very visible on the wireless market here now. And, there was a lot of conversion to GCI wireless in the first quarter and I think it's helping to drive our bundle sales and another ways as well.

**<Q – James Lee>**: Great, last question is here. Ron maybe you can give some update on the contract I believe you have lost to six wireless I think it was in the queue maybe Q3 of last year. Maybe you can sort of bring us upto day and status and the contract today actually terminate the agreement you have or is this still sort of ongoing as of now?

**<A – Ronald Duncan>**: With respect to fixed wireless?

**<Q – James Lee>**: Yeah, I believe it's the contract that AT&T may have won.

**<A – Ronald Duncan>**: That's how I have to do with the microwave network. Now, we are still providing service under that contract and still negotiating what arrangements would be used to keep our fibre in place as an alternate facility for that. So, the revenue stream may have diminished a little bit, but there is no net change here. And I can't give you a target for the discontinuance of that although we expect it to be this year.

**<Q – James Lee>**: Okay, great. Thanks.

**<A – Ronald Duncan>**: Sure, James.

Operator: Thank you. And at this time, I will turn the call over to the speakers for closing remarks.

**Company Representative**

Great, thank you very much. I wanted to clarify one item, Bret tells me that MCI credit was allocated to each other for our business units. So, rather than the earlier answer I gave you, but that basically wraps it up. I know lot of you are going to have a number of questions in terms of the new formats and so on, I encourage you track down Pete and Bruce and help guide you for your models and so on. That will wrap it for now. And thank you all very much for your participation.

Operator: Thank you. And that does conclude today's conference, we do thank you for your participation. At this time, you may disconnect your line.

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# Exhibit 3



Redacted